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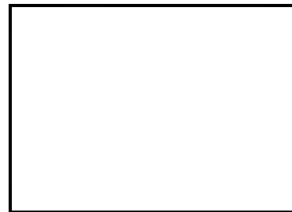
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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday 12 April 1978

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National Intelligence Daily Cable for Wednesday, 12 April 1978

The NID Cable is for the purpose of informing senior US officials.

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SYRIA-EGYPT: Diplomatic Activity

25X1 [] //Syria and Egypt seem to be probing the possibility of a reconciliation. Last week, Egypt established an interests section in Damascus []

25X1 [] efforts are under way by other Arab governments to mediate between Presidents Asad and Sadat, although a reconciliation summit does not yet appear imminent.//

25X1 [] //The opening of the interests section was the first instance of Egyptian diplomatic activity in Syria since relations were severed last December following Sadat's trip to Jerusalem and the Arab hard-line summit in Libya. []

25X1 [] Several Arab leaders, moreover, are currently trying to mediate between Syria and Egypt. Jordan's King Husayn has called for an Arab summit, and Arab League Secretary General Riyadh recently visited Damascus, Amman, and Riyadh to discuss a summit. At Saudi behest, the Arab League foreign ministers' conference in Cairo last month appointed Sudanese President Numayri to head a "solidarity committee," and Numayri may begin visiting Arab capitals soon to discuss reconciliation.

25X1 [] There have been numerous hints in the past month that Syria is interested in improving relations with Egypt, including several interviews in which Asad spoke of the need for Arab unity. 25X1

25X1 [] Sadat, for his part, has given no indication that he is prepared to admit failure, although he has publicly said that his initiative has entered a "new phase" that depends heavily on

US efforts to elicit greater flexibility from Israel. Sadat's willingness to deal with Syria probably depends on how he rates Washington's chances of coming up with an acceptable declaration of principles. He would almost certainly want to avoid undermining US efforts or giving Syria a chance to veto a declaration acceptable to Egypt.

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BRAZIL: Presidential Succession

[] Brazil's presidential succession process is still very much in the hands of the armed forces, but the transition now under way has taken on a decidedly political tone that is virtually unprecedented since the military took over 14 years ago. President-designate General Figueiredo, much more readily than his predecessors, has expressed his views on a wide variety of issues, and those who disagree have also become more vocal.

[] In recent days, Figueiredo has talked at length with media representatives, not hesitating to comment on sensitive problems. His remarks are a mixture of fundamentally authoritarian views and more liberal notions.

[] The general has declared, for example, that the military regime must remain in power and retain the sweeping authority it now has. He describes the representative systems of the Western democracies as unsuitable for Brazil. At the same time, however, he says he favors a "political opening" that would include more civilian input into government and fewer restrictions on dissent. He also holds open the possibility of restoring direct election of senators and state governors.

[] A noteworthy clash of opinions occurred last week between Figueiredo and a leading senator of the nominal opposition party. Figueiredo called the senator, an advocate of greatly liberalized rule, a "false democrat" who had arrogantly abused his authority as a state official several years ago. The senator categorically rejected the charge and said that if Figueiredo, the nation's top intelligence officer, believed such obviously false information, the nation's intelligence apparatus must be woefully inept.

[] Other opposition legislators have issued strong, if less dramatic, repudiations of what Figueiredo has had to say.

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The head of the party, for example, said he is more convinced than ever that Brazil's problems cannot be solved merely by rotating the presidency among military officers. "The system is wrong," he declared, and its "arbitrariness" must be "discarded without delay." One opposition congressman said Figueiredo's remarks made clear that he is "not prepared" for the presidency, while another regarded as "offensive" the general's comments about the capacity of Brazilians to vote intelligently.

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[] One of Brazil's leading dailies has expressed concern over Figueiredo's views. While admiring the general's frankness, the paper termed his opinions "worrisome," and it refuted most of the points Figueiredo had raised concerning the military regime and the inappropriateness of democratic rule.

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[] Figueiredo's readiness to talk with the press seems to have several objectives. One is to gain him publicity; when designated last January, he was not as well known as a number of other army generals. By frequently raising the issue of further liberalization, moreover, Figueiredo hopes both to enhance his appeal and to make the military's continuation in power more palatable to an increasingly restive populace.

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[] Still, Figueiredo has carefully avoided anything that smacks of a commitment. He undoubtedly is closely watching the public's reaction to the various possibilities that he raises in order to gauge just how far he might go as president toward certain reforms without engendering more civilian pressure than the military would tolerate.

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[] It is unclear whether the taciturn President Geisel fully approves of Figueiredo's extensive exposure in the media. The general's high profile and his penchant for generating controversy could prove troublesome for Geisel if it persists until Figueiredo is formally "elected" next fall. []

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PHILIPPINES: Demonstrators Freed

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[] Philippine President Marcos yesterday ordered the release of the more than 500 demonstrators arrested on Sunday, in an apparent effort to soften adverse US reaction to his

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postelection crackdown. The demonstrators still face charges of sedition, however, and are under surveillance by the military.

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[] Marcos' refusal to release a number of opposition leaders and their supporters who were also arrested reflects his determination to keep the opposition off balance and to complicate any future plans it might have. His repeated charges of "foreign intervention"--that is, US interference in the election--seems to be a calculated effort not only to exploit a time-honored Philippine election campaign theme but also to discredit former Senator Aquino and other opposition leaders.

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SUDAN: Increased Discontent

[redacted] Sudanese President Numayri's program of political liberalization and economic reform could be jeopardized by growing popular discontent over inflation and shortages of goods and services.

[redacted] //The most dramatic reflection of public displeasure has been a rash of largely nonviolent strikes in the past several weeks. Early this month, technical workers throughout the country went on strike for higher pay, affecting operations at airports, laboratories, and post and telegraph offices. Government physicians also went on strike. The last general wage increase was in 1974; since then a 25- to 30-percent annual inflation rate has seriously diminished real income.//

[redacted] Last weekend, at a rally staged to support his policies, Numayri charged that the USSR was behind the labor unrest.

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LEBANON: Situation Report

[Redacted] Sporadic fighting continued yesterday in Lebanon for the third straight day along the "confrontation line" separating the Christian and Muslim sections of Beirut. The Syrian-dominated Arab peacekeeping force, which failed on Monday to stop the fighting, yesterday moved an armored tank battalion into the area to engage both Christians and Lebanese leftists. The Palestinians apparently have not become involved.

[Redacted] Tensions have been high in Beirut since the Israeli invasion of the south forced tens of thousands of refugees to flee to the capital. Some were accommodated in tent camps put up by the government; most preferred to break into and occupy some of the city's many empty apartment buildings. Public order eroded as the Palestinians and some of their leftist supporters began to carry out holdups in the streets. The atmosphere of disorder presumably helped spark the current fighting, although the specific cause of the outbreak is obscure.

[Redacted] The Syrians have enough strength to bring the fighting under control eventually, and the Palestinians, at least, are making no effort to exploit the situation. The newspaper of the Palestine Liberation Organization has warned all sides against "falling into the trap of internecine fighting." The outbreak, nonetheless, illustrates the fragility of the security situation in Lebanon and the degree to which the Israeli intervention in the south has strained the country's uneasy 18-month-old cease-fire. [Redacted]

SOUTH AFRICA: Aid for Transkei

[Redacted] Prime Minister Matanzima of Transkei, the first black homeland to gain independence from South Africa, has appealed to Western countries for emergency aid after breaking diplomatic relations with Pretoria on Monday over a land dispute. Matanzima apparently is gambling--against heavy odds--that a show of defiance will transform his reputation as a puppet of South Africa, relieve Transkei's international isolation, or so embarrass the South Africans that they will make some concessions.



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[] No foreign government has recognized Transkei since Pretoria granted it nominal independence in October 1976; it is generally believed that recognition would indicate approval of South Africa's apartheid policy. Even if Matanzima gains international sympathy, foreign economic aid would be unlikely to offset Transkei's heavy dependence on South Africa, which provides some 70 percent of its government budget and extensive technical assistance.

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[] For years Matanzima has demanded that Pretoria cede a 3,400-square-kilometer segment of South African territory--East Griqualand--that separates the major portion of Transkei from a small exclave in South Africa's Natal Province. Matanzima may have decided to precipitate a diplomatic crisis now in the hope of counteracting a recent split in his political party. Party dissidents, who hold 18 of the 150 seats in the Transkei legislature, belong to the Pondo subtribal group, which maintains that the South Africans expropriated the disputed portion of East Griqualand from the Pondos' ancestors.

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[] Prime Minister Vorster told the South African Parliament yesterday that Matanzima's latest land claim was under review and that a diplomatic break would be disadvantageous to Transkei. Vorster is unlikely to give up the disputed territory, which is inhabited by over 5,000 white farmers and almost 40,000 nonwhites. Matanzima, for his part, apparently does not intend to expel South Africans, some of whom fill key administrative positions in his government, nor does he expect an immediate stoppage of the subsidies from Pretoria.

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UK: New Stimulus in Budget Message

[redacted] //Chancellor of the Exchequer Healey yesterday unveiled a moderately expansionary \$4.7 billion fiscal package aimed at reducing Britain's high unemployment. In his budget speech, possibly the last before the next general election, Healey also gave notice that the UK would repay ahead of schedule another \$1 billion of its borrowings from the International Monetary Fund.//

[redacted] //Most of the stimulus consists of personal income tax cuts. The \$4 billion reduction in personal taxes includes:

- A lowering of the tax rate applicable to the first \$1,400 of taxable income.
- An upward shift in the income thresholds for higher tax rates.
- An increase in tax exemptions.

The government also will ease taxes on capital gains and give business some minor tax breaks.//

25X1 [] //Along with the tax relief, Healey announced that a substantial portion of the \$1.4 billion contingency reserve included in the budget for the fiscal year that began 1 April will be spent. A major part will go for increased subsidies for children.//

25X1 [] //The government expects the fiscal stimulus to add three-quarters of a percentage point to the GNP growth rate over the next 12 months, raising it to about 3 percent. At the same time, stimulation will substantially reduce the current account surplus; the official British projection for 1978 has now been halved to \$1.4 billion.//

25X1 [] //The British expect their public sector deficit to approach \$16 billion in the new fiscal year. Public sector borrowing, however, would still fall within the limit agreed to as a condition of Britain's 1976 borrowing from the IMF.//

25X1 [] //Unlike the preceding two budget messages, the speech yesterday did not link tax relief to union acceptance of pay guidelines. Healey nonetheless made clear that he hoped to halve the rise in average earnings in the year beginning 1 August, suggesting a continuation of wage restraint.//

25X1 [] //Both the size and composition of the stimulus package were in line with pre-budget expectations. As anticipated, the income tax cut fell far short of what the Liberal Party had demanded as a condition for support of the finance bill. The Liberals, however, are likely to support the government through the second reading of the bill and then introduce amendments during the committee stage.//

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[] //Liberal maneuvers on this matter will be a key as to how long the Labor-Liberal pact--now in existence for a year--might last. Many rank-and-file Liberals favor an end to the agreement sooner rather than later even though their leaders have warned them that an early election probably would lead to a decline in the party's strength in Parliament. []

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BRIEFS

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Argentina

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[] The assassination yesterday of an undersecretary in Argentina's Ministry of Economy was the first major terrorist incident in almost a year. The style of the attack suggests it was the work of one of the nation's two major leftist terrorist organizations, the People's Revolutionary Army or the Montoneros.

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[] The action is almost certainly calculated to focus attention on economic grievances at a time when the government's austerity measures are coming under increasing political attack. Neither of the terrorist groups, which have been hard hit by the military government, is likely to become a more serious threat.

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